

**REPORT OF THE AUDIT OF THE
GREENUP COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GREENUP COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Greenup County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$30,477 from the prior year, resulting in excess fees of \$38,461 as of December 31, 2006. Revenues increased by \$62,366 from the prior year and expenditures increased by \$31,889.

Report Comments:

- 2006-01 The Sheriff Should Withhold Retirement From All Employees Who Meet The Criteria Established In KRS 78.510
- 2006-02 The Sheriff Should Maintain Time Records For All Employees
- 2006-03 The Sheriff Did Not Maintain Proper Supporting Documentation For \$6,384 Of Contract Labor Expenditures
- 2006-04 The Sheriff Should Improve Internal Control Procedures Over Financial Reporting

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11
COMMENTS AND RECOMMENDATIONS	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Robert W. Carpenter, Greenup County Judge/Executive
The Honorable Keith M. Cooper, Greenup County Sheriff
Members of the Greenup County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Greenup County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2007, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Robert W. Carpenter, Greenup County Judge/Executive
The Honorable Keith M. Cooper, Greenup County Sheriff
Members of the Greenup County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The Sheriff Should Withhold Retirement From All Employees Who Meet The Criteria Established In KRS 78.510
- 2006-02 The Sheriff Should Maintain Time Records For All Employees
- 2006-03 The Sheriff Did Not Maintain Proper Supporting Documentation For \$6,384 Of Contract Labor Expenditures
- 2006-04 The Sheriff Should Improve Internal Control Procedures Over Financial Reporting

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Greenup County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

September 28, 2007

GREENUP COUNTY
KEITH M. COOPER, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grants		\$	4,157
State - Kentucky Law Enforcement Foundation Program Fund			33,249
State Fees For Services:			
Finance and Administration Cabinet	\$	95,896	
Sheriff Security Service		25,334	121,230
Circuit Court Clerk - Court Ordered Payments			12,110
County Clerk - Delinquent Taxes			9,013
Commission On Taxes Collected			448,264
Other Fees On Taxes Collected:			
Sheriff's 10% Add-On Fees			119,721
Fees Collected For Services:			
Auto Inspections		8,825	
Accident and Police Reports		545	
Serving Papers		26,100	
Carrying Concealed Deadly Weapon Permits		9,300	44,770
Other:			
Advertising Fee		3,638	
School Resource Officer		17,909	
Miscellaneous		10,009	31,556
Interest Earned			4,665
Borrowed Money:			
State Advancement		230,000	
Bank Note		49,950	279,950
Total Revenues			1,108,685

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
 KEITH M. COOPER, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	295,211
Other Salaries		65,687
Kentucky Law Enforcement Foundation Program Fund		32,584

Employee Benefits-

Employer's Share Social Security		30,365
Employer Paid Health Insurance		25,981

Contracted Services-

Fiscal Court Collection		12,170
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Materials and Supplies-

Office Materials and Supplies		12,309
Uniforms and Deputy Supplies		10,569

Auto Expense-

Gasoline and Auto Repair		58,975
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Other Charges-

Conventions and Travel		24,883
Telephone		5,014
Postage		1,270
Advertising		1,087
Radio		4,128
Carrying Concealed Deadly Weapon Permits		4,785
Bond		4,962
Miscellaneous		6,290
Professional Fees		18,750
Contract Labor		7,231

Capital Outlay-

Office Equipment	\$	5,920
Vehicles		<u>79,109</u>
		85,029

Debt Service:

State Advancement	230,000	
Notes	49,950	
Interest	<u>445</u>	<u>280,395</u>

Total Expenditures		<u>\$ 987,675</u>
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The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
 KEITH M. COOPER, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Net Revenues		\$	121,010
Less: Statutory Maximum			<u>79,247</u>
Excess Fees			41,763
Less: Training Incentive Benefit			<u>3,302</u>
Excess Fees Due County for 2006			38,461
Payments to Fiscal Court - February 16, 2007	\$	38,220	
- May 24, 2007		<u>241</u>	<u>38,461</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grants - Governor's Highway Safety Program

The Governor's Highway Safety Program is a federally funded program passed through the Commonwealth of Kentucky, Kentucky State Police. The purpose of the program is to make drivers more safety conscious while driving on the roadways. During 2006, the Sheriff received and expended \$4,157 of grant funds.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 5. Special Enforcement Account

The Greenup County Sheriff maintains a separate account that is used for drug enforcement activities. This account is funded through written court orders. For 2006, the beginning balance was \$3,123. There were receipts of \$18,690 and interest earned of \$221. Expenditures for the year totaled \$3,439, leaving the account balance \$18,595 at December 31, 2006.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Robert W. Carpenter, Greenup County Judge/Executive
The Honorable Keith M. Cooper, Greenup County Sheriff
Members of the Greenup County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Greenup County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated September 28, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Greenup County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Greenup County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Greenup County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2006-03 and 2006-04.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Greenup County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards: 2006-01 and 2006-02.

The Greenup County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Greenup County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 28, 2007

COMMENTS AND RECOMMENDATIONS

GREENUP COUNTY
KEITH M. COOPER, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

2006-01 The Sheriff Should Withhold Retirement From All Employees Who Meet The Criteria Established In KRS 78.510

It was noted in the test of payroll that an employee did not have retirement withheld from his gross wages. This deputy works under a 175-day contract working 8 hours a day at the county high school, all of which indicates full-time status. However, it is our understanding that the employee is classified as a part-time deputy of the Sheriff's office, and therefore should not have retirement withheld. Due to a lack of timesheets or written contract, it cannot be determined whether the employee should be a part-time or a full-time employee; however, based on the criteria established under KRS 78.510, this employee should have retirement withheld from his gross wages. We recommend the Sheriff comply with KRS 78.510 by withholding retirement from all employees who meet the requirements of the above statute. In addition, this matter is being referred to the Kentucky Retirement System for further review.

Sheriff's Response: No Response.

2006-02 The Sheriff Should Maintain Time Records For All Employees

Timesheets were not maintained for employees of the Sheriff. KRS 337.320 states that every employer shall keep record of the hours worked each day and each week by each employee. Timesheets should be kept for payroll verification and as a record of leave time used. The employee and the appropriate supervisor should sign all timesheets. We recommend the Sheriff maintain time records properly for all employees.

Sheriff's Response: Will change as I deem appropriate

Auditor's Reply:

The preparation and retention of timesheets is essential to properly pay retirement and other fringe benefits plus accurately maintain leave balances. Without timesheets, an employer may face future liabilities for which he would not otherwise have been held accountable.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES:

2006-03 The Sheriff Did Not Maintain Proper Supporting Documentation For \$6,384 Of Contract Labor Expenditures

We noted the Sheriff retained two independent contractors without having written agreements describing the scope of the services to be performed. A third contractor submitted a written agreement; however, it was not dated and did not include specific details as to the date and time of services to be rendered. These contractors were paid \$6,384 and given a form 1099 Misc. for income tax reporting purposes for the year under audit. Without documentation as to the nature of services rendered, applicability of state law cannot be ascertained. In order for these contractors to be paid, an invoice detailing the services provided on a monthly basis should be required including supporting documentation for the time and expenses incurred for the services provided. We recommend the Sheriff contact federal and state agencies for guidance on service agreements, required documentation, and how to determine and document the status of independent contractors.

GREENUP COUNTY
KEITH M. COOPER, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES: (CONTINUED)

2006-03 The Sheriff Did Not Maintain Proper Supporting Documentation For \$6,384 Of
Contract Labor Expenditures (Continued)

Sheriff's Response:

I have reviewed the response given by my C.P.A. (Mr. Fyffe) and it reflects my feelings and understanding of the situation.

I still don't quite understand why we are even dealing with this matter after the exit conference. The matter was discussed at length with personnel from your office and I signed off on the exit conference paper work.

The following letter was provided by the Sheriff and written by the above referenced CPA:

July 16, 2007

*Audit Manager, Northeast Branch
105 Sea Hero Road, Suite 2
Frankfort, KY 40601-5404*

RE: Keith Cooper, Greenup County Sheriff

Dear _____:

I am in receipt of your Exit Conference Addendum dated June 29, 2007 concerning the independent contracts that Keith has helping serve papers. We had already applied the 20 point test to these individuals and determined they were not employees and have treated them as such. We issued 1099's accordingly.

The following are some of the issues we used in determining their status based on the 20 point test:

- 1. Individuals are not sworn deputies and have no powers thereof.*
- 2. Duties are limited to occasional serving papers and vehicle inspections, when extra workload permits.*
- 3. There is no requirement that the services be rendered personally.*
- 4. They can sublet, supervise, and pay assistants if they wish (somewhat impractical since their compensation is only a couple hundred dollars per month, but can if they want).*
- 5. The continuity of the relationship is not permanent, services are overflow only.*
- 6. Office does not set their hours and work is performed at their home.*
- 7. There is no requirement for full-time work and in fact, full-time is not available and they provide less than 100 hours per month for overflow services.*
- 8. They do not work on employer premises.*
- 9. Office does not set the order or sequence of work.*

GREENUP COUNTY
KEITH M. COOPER, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES: (CONTINUED)

2006-03 The Sheriff Did Not Maintain Proper Supporting Documentation For \$6,384 Of Contract Labor Expenditures (Continued)

Sheriff's Response: (Continued)

- 10. Office does not require oral or written reports.*
- 11. Office provides transportation to save tax dollars, but does not pay for any other business expenses.*
- 12. Contractor can/may/does work for others. Minimal time required for this contract.*
- 13. Firm can discontinue contract at any time by not giving any more contracts to serve.*
- 14. Worker can terminate contract at any time by returning unfulfilled contracts.*

As a safe harbor, we have treated them as independent contractors from inception, dating back to 1977 and issued 1099's accordingly. One has since become an employee and the other is performing inspections only on a contractual basis.

Yours truly,

*Terry R. Fyffe, CPA, ABV
2155 Carter Avenue
P.O. Box 2245
Ashland, Kentucky 41105-224
Phone: 606-329-8604
Fax: 606-324-2823
trfyffe@fja-cpas.com*

Auditor's Reply:

The official's response does not address the report comment. The Sheriff should require contractors to submit detailed invoices for the services provided and supporting documentation for the time and expenses incurred for the services to ensure the appropriateness of the expenditures. Additionally, the Sheriff should contact federal and state agencies for guidance in the determination and documentation of independent contractors.

2006-04 The Sheriff Should Improve Internal Control Procedures Over Financial Reporting

The Sheriff should take a more active role in overseeing financial reporting aspects regarding the following issues:

- The Sheriff or someone other than the bookkeeper should prepare the bank reconciliations to properly segregate duties. Currently, the bookkeeper prepares the deposit as well as the bank reconciliations.
- Bookkeeping software malfunctions should be corrected timely once detected to ensure that correct information is being reported.

GREENUP COUNTY
KEITH M. COOPER, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES: (CONTINUED)

2006-04 The Sheriff Should Improve Internal Control Procedures Over Financial Reporting
(Continued)

Deficiencies in the design of controls are more likely to occur when proper oversight in financial reporting is not employed. Inadequate segregation of duties within a significant account such as cash may increase the likelihood that deficiencies occur. Inadequate design of information technology prevents the information system from providing complete and accurate information consistent with financial reporting objectives. We recommend the Sheriff improve internal control procedures over financial reporting aspects within his office.

Sheriff's Response:

Same problem as lack of segregation of duties. This is impossible in a small dept. such as ours. We employ a CPA to check all financial/bookkeeping matters.

Auditor's Reply:

Correction of software malfunctions is not a matter of segregation of duties and should be fixed immediately once a problem is found. Furthermore, dividing the duties of preparing the deposit and reconciling the bank account between the Sheriff and the bookkeeper would correct the segregation of duties issue using current employees.

